Summary Funding Statement

ICI Pension Fund (the 'Fund')

Summary Funding Statement as at 31 March 2013

This statement is being sent to you on behalf of ICI Pensions Trustee Limited, which is the Trustee responsible for administering the Fund. As you are entitled to benefits from the Fund, we are writing to give you an update on the Fund's financial position. We will send you a statement like this regularly, so that you have updated information about the funding position.

In October last year you received the last Summary Funding Statement showing how the funding position had changed between the full actuarial valuation of the Fund as at 31 March 2011 and the interim review as at 31 March 2012. This statement updates the position to set out the results of the interim review as at 31 March 2013. The interim review is not as comprehensive as an actuarial valuation, for example it does not include a detailed consideration of all the underlying funding assumptions, such as for how long members' pensions are expected to be paid.

The funding position as at 31 March 2013

The last actuarial valuation of the Fund showed that on 31 March 2011 there was a deficit of £1,034 million, that is there was a shortfall in the value of the Fund's assets of £1,034 million compared with the estimated amount needed to provide benefits, earned by the valuation date, as and when they become payable over the life of the Fund. The corresponding funding level (the ratio of the value of the Fund assets to the amount needed to provide benefits) was 88%. As a result, ICI agreed to pay additional deficit contributions over a period of around six years from the valuation date that were expected to eliminate the shortfall. Further details of this were provided in the Summary Funding Statement issued in April 2012 (available on the Fund's website at www.icipensionfund.org.uk under Library & forms).

An interim review to assess the financial position of the Fund as at 31 March 2013 has now been completed and shows the estimated position to be as follows:

Assets	£9,074 million
Amount needed to provide benefits	£10,019 million
Shortfall	£945 million
Funding level	**91%**

Over the year to 31 March 2013 the funding level improved from 89% to 91%. The main reason for the improvement in the funding level over the two years since the 2011 actuarial valuation (from 88% to 89% to 91%) is the deficiency contributions of £470 million (in total) received in January 2012 and January 2013. However, the reduction in the monetary size of the shortfall in the assets compared with the amount needed to provide the benefits of £89 million (from £1,034 million to £945 million) is much lower as asset and pension values have increased, mainly due to reductions in long-term interest rates.

Under the contributions schedule agreed as part of the 2011 actuarial valuation, the following deficit contributions are due (or already paid) over six years from the valuation date:

- £335 million payable by 31 January 2012
- £135 million payable by 31 January 2013
- £178.5 million payable by 31 January from 2014 to 2017 inclusive.

No payments back to ICI

There has been no payment to ICI out of the Fund's assets over the period 1 April 2012 to 31 March 2013 nor, so far as the Trustee is aware, at any time previously to any company connected with ICI or with AkzoNobel. The Trust Deed which governs the Fund contains strict provisions about the payment of Fund money to employers. Essentially, payments can only be made to employers if the Fund is terminated at a time when it has more than enough money to secure every member's benefits in full.

No intervention by the Pensions Regulator

In certain circumstances, the Pensions Regulator has powers to intervene in a scheme's funding plan, by changing the future accrual of benefits, setting the level of the statutory funding objective, setting the terms of the recovery plan for meeting the statutory funding objective and/or imposing a schedule of contributions. The Pensions Regulator has not used any of these powers in relation to the Fund.

Valuation on a solvency – or 'winding up' – basis

As part of the interim review, the Fund's solvency position was assessed. A solvency valuation assumes that all benefits will be secured by buying policies in the insurance market and estimates the total funds that this would require. The interim review showed if the Fund had started winding up as at 31 March 2013 there would have been an estimated shortfall in assets of £2,176 million compared with what would have been needed for members' benefits to be paid in full by an insurance company. The solvency funding level as at 31 March 2013 was 81%. Please note that insurance companies tend to place a higher value on scheme liabilities than the value used by trustees for funding purposes.

Guarantee from AkzoNobel N.V. ('AkzoNobel')

Since 2 January 2008, ICI has been a wholly-owned subsidiary of AkzoNobel. With effect from the same date, the Fund also has the benefit of an unlimited guarantee from AkzoNobel of all ICI's obligations to make payments to the Fund in accordance with the Trust Deed, pensions legislation and any specific agreements between the Trustee and ICI (such as the schedule of contributions).

What would happen if the Fund started to wind up?

The Fund can only be wound up if ICI goes into liquidation. In the event of this happening, ICI would have the obligation to pay enough into the Fund to enable members' benefits to be completely secured with an insurance company. If ICI itself could not pay, then the Trustee would look to AkzoNobel to make the payment instead under the terms of the guarantee. In the event that neither ICI nor AkzoNobel could pay this entire amount, you would not receive the full amount of pension you have built up (even if there was no deficit in the Fund based on the most recent actuarial valuation available at the time). This information is provided for completeness only and does not imply that the Fund is likely to wind-up.

If ICI were to go into liquidation, the Pension Protection Fund (PPF) should ensure that members receive a statutory minimum level of compensation. A summary of the PPF compensation regime was given on page 10 of Pensions News 2009, which is also available on the Fund's website at www.icipensionfund.org.uk under Library & forms.

Further information and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk or you can write to the PPF at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Transferring your benefits out of the Fund

If you have not yet retired, you may wish to transfer your pension to another arrangement. It is possible that the funding level could affect the level of future transfer payments. Details of transfer values are available on request from ICI Pensions Services (contact details are at the end of this statement).

Important: **If you are thinking of leaving the Fund for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action.**

The importance of employer financial support (the 'employer covenant')

The Trustee's target funding level is to have enough money in the Fund to pay pensions in full, now and in the future, and is based on the assumption that ICI (supported as necessary by AkzoNobel) is able to continue to support the Fund. As explained above, ICI will continue to pay deficit contributions, plus the cost of employed members' benefit accrual, as well as the expenses of running the Fund. The funding level can fluctuate as a result of variables such as changes in investment conditions or as a result of improved life expectancy. When there is a funding shortfall, ICI (supported as necessary by AkzoNobel) will usually need to put in more money.

Unless the Fund is wound up, pensions will continue to be paid in full even though funding is temporarily below target.

Measuring the Fund deficit if the employer covenant were to weaken

The current approach to funding reflects the Trustee's assessment of the covenant of ICI (as supported by AkzoNobel) and its continued ability to meet its ongoing obligations to the Fund. In the event that the Trustee were not able to rely on the financial support of ICI (or AkzoNobel) in the future as we can now, the funding requirement would be reassessed and the deficit could increase substantially. This includes (but is not limited to) situations which could arise following a change in ownership of ICI (or of AkzoNobel).

By way of an example, the current assessment of the deficit effectively includes some advance credit for expected higher investment returns from some riskier assets which could also fall substantially in value. If the employer covenant were not strong enough in future to cope with such investment risk, the Trustee would have to consider changing the investment policy to one where expected returns are more predictable but lower. Lower investment returns and more cautious assumptions could increase the deficit to be met by employer contributions quite substantially. This is illustrated by the results of the most recent actuarial valuation as at 31 March 2011: on the assumptions agreed for the ongoing valuation the funding deficit is £1,034 million. On the more conservative assumptions used in estimating the cost of securing members' benefits with an insurance company (the solvency valuation) the deficit increases to £1,922 million.

The Trustee's funding policy has been developed to meet the UK regulatory regime for Scheme-Specific Funding (modified by the special protective provisions in the ICI Pension Fund Trust Deed), and is set out in more detail in the Fund's Statement of Funding Principles (copies of which are available on request from ICI Pensions Services). These regulations assume that the valuation principles will normally be agreed between the Trustee and ICI. In the event of a failure to agree, the Pensions Regulator normally has power to decide for itself the actual level of employer contributions. However, in certain circumstances, for example if AkzoNobel were to be taken over, or if its credit rating were to be significantly damaged, the Fund Actuary has an additional role in determining the employer contributions under the Fund's Trust Deed and Rules, and this is reflected in the Scheme-Specific Funding requirements. In the event of a failure of the Trustee and ICI to agree employer contributions in these circumstances, the Pensions Regulator would also have to take account of the relevant recommendations of the Fund Actuary. 'Scheme-Specific Funding' broadly requires the amount of money that the Fund needs to be set in order to provide reasonable security for members' accrued benefits. This depends on the specific circumstances of the Fund at the time and, in particular, on the extent to which it can confidently rely on ICI's and AkzoNobel's continued financial support. This means that there is no single answer as to the appropriate size of the funding deficit if circumstances change.

Next actuarial valuation

The next actuarial valuation is expected to be undertaken as at 31 March 2014. The results will be communicated in a Summary Funding Statement, which is expected to be issued in the first half of 2015. However, the Trustee or ICI can commission an earlier actuarial valuation of the Fund to review ICI's contribution requirements if appropriate.

Where can I get more information?

This Summary Funding Statement is based on the actuarial report of the Fund Actuary on the funding position as at 31 March 2013. If you would like any more information on this subject, copies of the actuarial reports as at 31 March 2012 and 2013 and the full actuarial valuation report as at 31 March 2011 are available to members at a cost of £5 each by post from the address given below, or free by email or direct from the Trustee website at www.icipensionfund.org.uk. You can also request further information about any other aspect of your pension from ICI Pensions Services.

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